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## Agenda Item 20

December 14, 2011

**TO: MEMBERS OF THE BOARD OF ADMINISTRATION**

- I. SUBJECT:** Diversity Update
- II. PROGRAM:** Diversity Outreach Program, Investment Office, and Legal Office
- III. RECOMMENDATION:** Information Item
- IV. ANALYSIS:**

The purpose of this agenda item is to provide an overview and status of the Diversity Outreach Program (CDOP), the Investment (INVO), and Legal Office's diversity and inclusion (D&I) efforts.

As a global investor, public employer, and provider of retirement and health benefits services within the nation's most ethnically and culturally diverse state, CalPERS recognizes diversity as a competitive advantage that calls for the broadest possible pool of talent, experience, and perspective. The CalPERS Board of Administration acknowledged this by including D&I as an element in the Strategic Plan.

### **Diversity Outreach Program – Internal Operations**

#### ***FY 2011-12 Second Quarter D&I Activities***

In the second quarter of FY 2011-12 CDOP staff developed, implemented, or participated in various organization-wide initiatives, and external multifaceted activities, enhancing appreciation for D&I at CalPERS.

In partnership with the Human Resources Division, staff updated the CalPERS *Limited Examination and Appointment Program (LEAP) Policy*. This *Policy* ensures recruitment of the most qualified applicants from diverse backgrounds. All hiring managers and supervisors will follow the *LEAP Policy* when filling vacancies in LEAP corresponding classifications.

Last month, the new CalPERS *Harassment Prevention Policy* was distributed enterprise-wide and replaced the *Zero Tolerance Sexual Harassment Prevention Policy*. The new *Policy* includes all categories of discrimination; including sexual harassment (**Attachment A**).

Also, the Human Resources Division updated and distributed the CalPERS *Nepotism Policy* (**Attachment B**).

The Association of California State Employees with Disabilities (ACSED) and the Statewide Disability Advisory Council (SDAC) selected CalPERS to receive recognition as one of the best Disability Advisory Council (DAC) in State service for the *2011 DAC of the Year Competition*.

In recognition of National Disability Awareness Month in October, staff hosted its quarterly Brown Bag Luncheon Speakers Series with guest speaker, California Highway Patrol (CHP) Officer Mike Remmel. Officer Remmel is the only double amputee who has returned to full duty with the CHP.

CDOP also supported the National Disability Awareness Month by conducting a National Disability Education and Outreach Fair for CalPERS employees on October 25, 2011.

CDOP conducted Session One of the Executive D&I Development Journey with the Kaleidoscope Group on October 31, 2011. This leadership development program is in alignment with 2011-12 CalPERS Business Plan and the D&I Business Plan, and the strategic direction of our D&I efforts with the implementation of committed behaviors and actions from the Senior Leadership team.

The Diversity Executive Steering Committee met last month to review and discuss the D&I Focus Group's (Group) recommendations. Staff provided the Committee with a matrix that mapped out the Group's recommendations and demonstrated how they are in alignment with the many D&I initiatives already underway as directed by the 2011-12 CalPERS Business Plan and the D&I Business Plan.

### ***Outreach Activities***

Recruitment staff from the Human Resources Division participated in the following events:

- City Career Fairs – Diversity Employment Day, the Sacramento Job Journal
- Greater Sacramento Urban League - Job Fair
- California State University, Sacramento – Job Fair
- Chico State – Job Fair
- University of Pacific, Stockton – Job Fair
- California State University, Sacramento – Mock Interview Employer Panels

### ***Future Activities***

CDOP will host a table in the auditorium gallery at the Leadership Forum scheduled for Thursday, December 15, 2011. Diversity Coordinators and members of the Diversity Outreach Committee will provide information on *CalPERS LEAP Policy* and help raise awareness about enterprise D&I initiatives.

In January, the Senior Leadership team will take part in Session Two of the Executive D&I Development Journey with the Kaleidoscope Group. A second series of sessions are scheduled for January and March 2011 for those who were not able to attend the first two sessions.

- Upon completion, the CalPERS leadership team will have the knowledge and skills to:
  1. Know and articulate the business case for D&I at CalPERS
  2. Lead staff towards a sustained commitment to D&I
  3. Lead staff in valuing differences
  4. Sponsor and support D&I efforts
  5. Lead in a culturally competent way

In alignment with the 2011-12 CalPERS Business and D&I Business Plans, the Human Resources Division will release a new *Interview Panel Composition Policy* this month. In addition, the *Division Chief Approval of Hires Policy* will be rolled out as well.

CDOP staff is developing several D&I trainings, resources, and tools that are scheduled to be rolled out in 2012, such as:

- Multigenerational Leadership Training
- Online Managers/Supervisors Toolkit
- Employee web-based D&I Training

### **Investment Office**

#### ***Portfolio Management – Programs & Research***

##### **Alternative Investment Management (AIM) Program**

The AIM Program staff conducted in depth reviews of each of the forty-one responses to the Request for Information (RFI) process that commenced in July 2011, related to forming a New Investment Vehicle (NIV) for emerging domestic private equity manager investments. Proposals were received through the investment proposal online submission service on the CalPERS external website. Staff then selected a short list of candidates among competitive firms, developed an interview questionnaire, and conducted interviews during the quarter.

##### **Global Equity**

The Investment Committee reviewed the Global Equity annual asset class strategic plan in October 2011, which included restructuring plans for emerging manager programs within the Global Equity portfolio. This plan is a continuation over the past several years of development and refinement work by staff toward implementation of a holistic approach to the capital allocation process in Global Equity. This approach uses both quantitative and qualitative analyses to review and measure the impact that existing or potential strategies can have on estimated risk and return of the Global Equity portfolio.

## **Real Assets**

The Investment Committee approved staff's recommended Emerging Manager Program for Real Estate in August 2011. During the quarter, staff and the consultant, Crosswater Realty Advisors, developed the Program guidelines, Mentoring Manager Questionnaire, and Annual Workforce Diversity Questionnaire. Staff distributed the Program guidelines and Mentoring Manager Questionnaire in November 2011 to four existing seasoned investment managers. The Annual Workforce Diversity Questionnaire has been reviewed and approved by legal counsel.

## **Corporate Governance**

CalPERS and CalSTRS publically announced the launch of the Diverse Director DataSource (3D) on September 26, 2011. GovernanceMetrics International (GMI) issued a separate press release and made a formal announcement during the Council of Institutional Investors' (CII) fall meeting in Boston, MA. GMI hosted a 30-minute meeting to walk through a slide presentation and demonstration of 3D open to all CII members. 3D is now open to qualified candidates who wish to submit their professional profile details through the GMI website at [www.GMI3D.com](http://www.GMI3D.com).

## ***External Outreach – Networking & Pipeline Development***

CalPERS Board of Administration members and Investment Office staff attended three annual conferences hosted by diversity membership industry associations during October 2011 as follows:

- National Association of Investment Companies 41st Annual Conference, October 2-4, 2011, held in Palm Beach, FL
- Association of Asian American Investment Managers 4th Annual Conference, October 11-12, 2011, held in Washington, DC
- New America Alliance 11th Annual Wall Street Summit, October 26-28, 2011, held in New York, NY

The Investment Office talent management plans included seeking out opportunities to partner with diversity non-profit organizations in an effort to attract professionals to CalPERS Investment Office.

Partnering with CalSTRS, the Investment Office staff coordinated CalPERS participation at the *Career Opportunities in the Pension Fund Sector* outreach event hosted by the San Francisco Bay Area Latinos in Finance (SFBALIF) in October 2011. SFBALIF is an inclusive professional society geared towards top tier Latino finance professionals. The organization's mission is fostering high level networking across investment banks, asset managers, pension funds, endowments, government agencies, nonprofits, and corporations. This event provided an overview of the culture, investment philosophy, future plans, and the 3D initiative in the Corporate Governance unit to senior and mid-career professionals, and students invited by SFBALIF.

During the closing networking session, attendees had an opportunity to meet with several CalPERS and CalSTRS investment office and human resources staff, learn more about employment opportunities at each agency, and how to complete the State of California application process, and how to join 3D.

### ***Future Plans***

#### ***Portfolio Management – Programs & Research***

##### **AIM Program**

AIM Program staff anticipates that the NIV for emerging domestic private equity manager investments could be structured as a customized fund-of-funds. The next steps will be informing the selected candidate, conducting satisfactory confirmatory due diligence, and successfully drafting and negotiating investment agreements memorializing the relationship between CalPERS and the NIV advisor. Once the advisory relationships are fully established, the advisor will identify emerging domestic private equity sponsors, negotiate limited partnership agreements, and manage capital commitments to them.

##### **Global Equity**

Next steps in plans and objectives for staff restructuring Global Equity emerging manager programs include developing a vision for and path to direct relationship transitions, clearly delineating roles, and expanding relationships. Staff also envisions developing additional tools and then piloting utilization of the alternate solicitation process to implement restructuring plans.

## **Real Assets**

Staff will review written responses to the Mentoring Manager Questionnaire, and subsequently schedule in-person interviews for late January 2012. Staff will, ultimately, select one or two mentoring managers for the Program. Additionally, staff and consultant have met and/or corresponded with many emerging managers inquiring about Real Estate's new Emerging Manager Program. To date, staff has received and kept on file approximately 60 related inquiries that will be forwarded to the selected mentoring manager(s).

## ***External Outreach – Networking & Pipeline Development***

Developing a 2012 calendar of externally hosted conferences that incorporate diversity and emerging manager topics into their agenda is the next step in the work plan toward balancing program related core workload, travel and expense budgeting with requests for CalPERS presence through staff participation at such events.

## **Legal Office**

The Legal Office's Diversity Project seeks to increase diversity within the pool of outside counsel with which CalPERS contracts for legal services so that the pool reflects California's diverse population, provides a broad spectrum of experience, talent, viewpoints and strategies, and elevates the professional expertise available to the CalPERS system through contracting opportunities.

The *2010-11 CalPERS Business Plan* included a specific initiative designed to improve outside counsel diversity. The initiative provided that by June 30, 2011, the Legal Office will expand external legal counsel contracts by creating pools in at least four specialty areas through the addition of firms reflective of California's diverse population.

The Legal Office achieved the initiative set forth in the *2010-11 CalPERS Business Plan* by creating pools of outside counsel firms in the five specialty areas of:

- Health Care Law
- Labor/Employment
- Bankruptcy
- Immigration
- Business Litigation

Contracts have been executed with diverse firms in each of the five pools, with the exception of the Business Litigation pool. Contracts with firms in this last pool will be executed by the end of the year.

The *2011-12 CalPERS Diversity & Inclusion Business Plan* contemplates several next steps in the Legal Office Diversity Project. Now that contracts are in place with several diverse law firms, the Legal Office must direct business to these firms, as the need for external legal services arises. In addition, we will monitor and evaluate the services provided by the firms so that we can recommend any necessary process changes to increase participation and engagement of the firms, and we will continue our outreach efforts through professional organizations to continue to expand the diversity of the outside counsel pools. Finally, it is important that we again survey all of the law firms we have under contract to gather statistics on each firm's woman and minority representation and diversity and inclusion programs and initiatives, and that we engage with any firms that fail to demonstrate a strong commitment to diversity and inclusion.



**V. STRATEGIC PLAN:**

This agenda item is in alignment with the following Strategic Goals:

- II. Foster a work environment that values quality, respect, diversity, integrity, openness, communication, and accountability;
- III. Sustain a high performance work culture utilizing staff development, technology, and innovative leadership and management strategies;
- IV. Design and develop education and communication initiatives to ensure broad member and stakeholder understanding of CalPERS value; and
- IX. Achieve long term, sustainable, risk-adjusted returns.

**VI. RESULTS/COSTS:**

This agenda item will result in regular program cost only.

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